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April,2, 2004

Dear Officials of Federal Bank and Thrift Agencies:

Re: Proposed Revisions to the Community Reinvestment Act Regulations

I am writing to support the federal bank regulatory agencies' (Agencies) proposal to enlarge the number of banks and saving associations that will be examined under the small institution Community Reinvestment Act (CRA) examination. The Agencies propose to increase the asset threshold from $250 million to $500 million and to eliminate any consideration of whether the small institution is owned by a holding company. This proposal is clearly a major step towards an appropriate implementation of the Community Reinvestment Act and should greatly reduce regulatory burden on those institutions newly made eligible fir the small institution examination, and I strongly support both of them.

When the CRA regulations were rewritten in 1995, the banking industry recommended that community banks of at least $500 million be eligible for a less burdensome small institution emination. The most significant improvement in the new regulations was the addition of that small institution CRA examination, which actually did what the Act required: had examiners, during their emination of the bank, look at the bank's loans and assess whether the bank was helping to meet the credit needs of the bank's entire community. It imposed no investment requirement on small banks, since the Act is about credit, not investment. It added no data reporting requirements on small banks, fulfilling the promise of the Act's sponsor, Senator Proxmire, that there would be no additional paperwork or record keeping burden on banks if the Act passed. And it created a simple, understandable assessment test of tha bank's record of providing credit in its community. The test considers the institution's loan-to-deposit ratio and loan-to-asset ratio, the percentage of loans in its assessment areas, its record of lending to borrowers of different income levels and businesses and farms of different sizes, the geographic distribution of its loans, and its record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment areas.

The regulatory burden on WBRS Financial, a $117 million Maryland-based banking institution, has only grown larger, including massive naw reporting requirements under HMDA, the *USA* Patriot Act, and the privacy provisions of the Gramm-Leach-Bliley Act. But the nature of NERS Financial has not changed. NBRS Financial must comply with the requirements of the large institution CRA emination, the costs to and burdens on our bank increase dramatically. Converting to the large institution examination requires, among other things, that we devote additional staff time to documenting services and investments, which we currently do not do, and begin to geocode all of our loans that might have CRA value. This imposes a dramatically higher regulatory burden that drains both money and personnel away from helping to meet the credit needs of the institution's community. In our estimate, this could increase the cost of regulatory burden from $110,000 annually to $160,000 annually, representing 15% of our net earnings. This limits our ability to grow capital for reinvestment to our community.

I believe it is as true today as it was in 1995 and in 1977 when Congress enacted CRA, that a community bank meets the credit needs of its community if it makes a certain amount of loans relative to deposits taken. A community bank is typically non-complex; it rakes deposits and makes loans. Its business activities are usually focused on small, defined geographic areas where the bank is known in the community. The small institution examination accurately captures the information necessary for examiners to assess whether a community bank is helping to meet the credit needs of its community, and nothing more is required to satisfy the Act.

As the Agencies state in their proposal, raising the small institution CRA examination threshold to $500 million makes numerically more community banks eligible. However, in reality, raising the asset threshold to $500 million and eliminating the holding company limitation would retain the percentage of industry assets subject to the large retail institution test. It would decline only slightly, from a little more than 90% to a little less than 90%. That decline, though slight, would more closely align the cumnt distribution of assets between small and large banks with the distribution that was anticipated when the Agencies adopted the definition of "small institution." Thus, the Agencies, in revising the CRA regulation, are really just preserving the *status quo* of the regulation, which has been altered by a drastic decline in the number of banks, inflation, and an enormous increase in the size of large banks, I believe the Agencies need to provide greater regulatory relief to community banks than just preserve the *status quo* of this regulation.

While the small institution test was the most significant improvement of the revised CRA, it was wrong to limit its application to only banks below $250 million in assets, depriving many community banks from any regulatory relief. Currently, a bank with more than $250 million in assets faces significantly more requirements that substantially increase regulatory burdens without consistently producing additional benefits as contemplated by the Community Reinvestment Act. In today's banking market, even a $500 million bank often has only a handful of branches. I recommend raising the asset threshold for the small institution examination to at least $1 billion. Raising tho limit to $1 billion is appropriate for two reasons. First, keeping the focus of small institutions on its core business lending, which the small institution examination does, would be entirely consistent with the purpose of the Community Reinvestment Act, which is to ensure that the Agencies evaluate how banks help to meet the credit needs of the communities they serve. Secondly, raising the limit to $1 billion will have only a small effecton the amount of total industry assets covered under the more comprehensive large bank test. According to tha Agencies' own findings, raising the limit from $250 to $500 million would reduce total industry assets covered by the large bank test by less than one percent. According to December 31,2003 Call Report data, raising the limit to $1 billion will reduce the amount of assets subject to the much more burdensome large institution test by only 4% (to about 85%). Yet, the additional relief provided would, again, be substantial, reducing the compliance burden on more than 500 additional banks and savings associations (compared to a $500 million limit). Accordingly, I urge the Agencies to raise the limit to at least $1 billion, providing significant regulatory relief while, to quote the Agencies in the proposal, not diminishing "in any way the obligation of all insured depository institutions subject to CRA to help meet the credit needs of their communities. Instead, the changes are meant only to address the regulatory burden associated with evaluating institutions under CRA."

In conclusion, I strongly support increasing die asset size of banks eligible for the small bank streamlined CRA examination process as a vitally important step in revising and improving the CRA regulations and reducing regulatory burden. I also support eliminating the separate holding company qualification for the small institution examination, since it places small community banks that *are* part of a larger holding company at a disadvantage to their peers and has no legal basis in the Act. While community banks, of course, still will be examined under CRA for their record of helping to meet the credit needs of their communities, this change will eliminate some of the most problematic and burdensome elements of the current CRA regulation from community bonks that are drowning ir regulatory red tape.

Sincerely,

Jack H. Goldstein
President and CEO

JHG/dhj